

21 JUN 1974

MEMORANDUM FOR: Deputy Director of Logistics

SUBJECT : Recommendations of the PPA/PRA Study Group-
Supply Division Comments

I GENERAL

A. This paper discusses the Supply Division (SD) position vis-a-vis the recommendations made by the PPA/PRA Study Group and contains a recommendation for your approval in the concluding paragraph. Any analysis of alternatives to our present PPA/PRA system demands that certain basic elements of procedural guidance be accepted if we are to maintain the integrity of the system of accountability adopted. They are defined as follows:

1. Stock:

a. Captive - Those items for which budget responsibility, materiel management, technical cognizance, and authority for drawdown are vested in one office.

b. Common - Those items which are utilized by two or more requisitioning activities (users) with materiel management vested in a single component and technical cognizance exercised by an appropriately designated office. Budget responsibility rests with the requisitioner (user).

2. Materiel Management: Quantitative accountability maintained through an adequate system of transaction and inventory control either manually or semiautomatically (GIM II/ICS).

3. Single Manager: Materiel management of specific items or classes of items in an appropriately designated manager. (This does not include budget responsibility or technical cognizance, although these elements may be assigned to a single manager.)

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4. Budget Responsibility: Monetary estimates (budgets) prepared in response to authoritative Program Calls by the user.

5. Inventory Budgeting: Pertains only to "captive" stock.

6. Requisitioning Authority: That authority vested in components allowing appropriately allotted monies to be converted into personal property.

7. Direct Procurement: Requests for materiel not maintained in the Agency's "stock system" for which procurement action must be undertaken which results in a direct fund charge to the requisitioner (user).

8. Stock Allocation: Stocks reserved for a particular Agency component or project. (It does not pertain to materiel management, technical cognizance, or budget responsibility.)

B. After reviewing the recommendations made (in draft) by the PPA/PRA Study Group, we feel that the disadvantages of our present system and the extensive system revision required to accept a completely capitalized or revolving fund procedure does, at least at present, eliminate them from further consideration. Thus, only the "Direct Funding" and "Modified PPA/PRA" proposals are considered responsive to the Study Group charter. However, the "Revolving Fund" alternative and its interface with current and proposed ADP procedures, as they pertain to the property system, should be evaluated in depth with a view towards future consideration for adoption.

II DISCUSSION

A. As stated earlier, the status quo is an acceptable alternative; but, by the same token, not all of the deficiencies of our present system automatically translate as advantages for "Direct Funding." In the current atmosphere of "Resource" and "Zero Base" budgeting, estimates of future monetary needs will require looking more to the future with less credence put on past action. Notwithstanding, there are very definite advantages to "Direct Funding," albeit most of which will accrue to the maintenance of financial accountability. Conversely, eliminating the recording of direct purchases in the Financial Property Accounting (FPA) system will very definitely bring manpower savings to SD in the area of transaction coding and tape punching of machine input data. This saving, of course, would

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also apply if we removed the processing of direct purchases through the PPA system as envisioned in the "Modified PPA/PRA" system. It is an accepted fact that any supply management system must include effective property control and utilization criteria. It is extremely doubtful that the "Direct Funding" concept would enable an acceptable level of control and materiel utilization to be established by reason of the fact that neither initial issue nor reissue would cause an appropriation charge. Any degree of control and utilization of materiel under "Direct Funding" would require clearly defined and practiced (enforceable) supply discipline measures. Lack of control on initial issue would most assuredly result in indiscriminate materiel drawdown. Further, reissue would, of course, be dependent on the materiel being returned when no longer needed. The only meaningful control on property is money in the hands of the requisitioner. A system of price adjustment based on the condition of an item would be far more enticing from a user's point of view.

B. Aside from the materiel management aspects, or lack thereof, in the "Direct Funding" concept, there is an additional burden that would be placed upon each budgeting component; i.e., each office would, in the preparation of its budget, be required to "guess" at what it must fund and what would be funded for it. Acceptance of inventory budgeting for "common" stocks (a requirement for all elements if the "Direct Funding" proposal is implemented) would not retain for us the measure of control and utilization we now have, much less achieve any anticipated improvement. SD cannot effectively discharge its responsibility of maintaining a viable, responsive supply system and at the same time permit indiscriminate drawdown. Today, we look at "unfunded PRA" and its effect on our materiel management system with a jaundiced eye. Under the "Direct Funding" concept, we feel we would be subscribing to such a system as a matter of common practice.

C. The current budgeting process can accept inventory budgeting where "captive" stocks are concerned. There are, as you know, many elements which must be considered in the development of a budget estimate. Briefly, they include, but are not limited to:

1. Active projects in the expenditure, budget, and out years.
2. Materiel usage during the expenditure, budget, and out years.
3. Demands experience.
4. Procurement leadtimes to include fabrication.

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5. Anticipated funds limitation.

6. Future trends in the Intelligence Community, including trends in national policy and improvements to the state of the art.

Naturally, materiel usage is of vital concern when dealing with any specific period of time covered by budget estimates with the ultimate judgment impacting on "what to buy." At the same time, continued investment in inventory for newly developed equipment and significant increases in inventory levels are of concern.

III RECOMMENDATION

It is feasible at the present time to accept inventory budgeting for "captive" stock and to eliminate the processing of all direct purchases through the FPA (FPA/PRA) system. Therefore, it is recommended that inventory budgeting for "captive" stock be incorporated into the Study Group's proposal titled "Modified PPA/PRA" and that this system be adopted.

[Redacted Signature]

Chief, Supply Division, OL

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MEMORANDUM FOR THE RECORD

SUBJECT: Memorandum for DD/L (Draft) Containing Recommendations
of PPA/PRA Study Group

1. While each alternative to the present system of Financial Property Control deserves a complete analysis, we are in no position to accept a complete change of systems without considering beforehand the effects of such change both direct and indirect. "Direct funding" may well be determined to be the best course of action; however, we must look at probable problem resolution prior to system adoption.

2. The objective of this memorandum is to present a preliminary analysis of the "direct funding" recommendation as it can affect the management of this Agency's materiel assets. Initially, we are concerned with a differentiation between what I shall refer to as "captive" and "open" stock.

a. Captive Stock: Those items for which materiel management and technical cognizance is vested in one office, and only a single activity is authorized to approve stock draw-down.

b. Open Stock: Those items which are utilized by two or more requisitioning activities and for which materiel management rests with the Office of Logistics, and technical cognizance may be exercised by any appropriate office so designated.

I believe it to be imperative that we accept the definitions above if we expect any degree of success in inventory budgeting and the follow-on facets of "direct funding." Even so, while materiel management and the requisitioning authority would be clearly defined, there would be constraint to indiscriminate stock drawdowns.

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3. In addition to the "captive" and "open" stock concept, materiel management would not relate to stock allocations. Stock allocations would then only relate to the technical cognizance assigned. This, in fact, represents the adoption of the "Single Manager" concept. With the reorganization of the Supply Division, one of the first orders of priority will be to purify the materiel management process. This, of course, will include restructuring the data base from an analytical point of view. By this, I mean stock allocations will only then reserve stock quantities for particular Agency components while management and technical cognizance will be indicated by the appropriate code.

4. Currently, our Financial Property Accounting system (FPA) is controlled by the Property Procurement Allotment (PPA)/Property Requisitioning Authority (PRA) principle. It is well recognized that in many instances it has outlived its usefulness. On the other hand, without some form of control, FPA would become a worthless set of debits and credits so far as materiel management is concerned. It must be remembered that both financial as well as quantity control of property is required under the "Government Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies." Section 12.5 states in part, "Accurate and reliable financial and quantitative information on property resources for use by internal management and for preparing financial reports for the Congress and others can be obtained only from a properly designed and operated system of accounts and related procedures." While our relief from audit by the General Accounting Office (GAO) under PL110 carries certain exemptions, we must live within the intent and maintain a system of checks and balances of all resources, funds, and property alike.

5. There are certain facts which dictate we embark on an exhaustive analysis which will reflect "cause and effect" of any new or modified system we recommend for financial and property control of Agency resources. Additionally, we must accept within any such system a definitive control on materiel drawdown and the authorization for action. Without control over issues, we will have no system of property control from

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a consumption point of view. Knowledge after the fact on requirement levels will mean multiple adjustment prior to the expenditure year and most assuredly re-allotment of funds during the expenditure year.

6. We can employ inventory budgeting under our present system. The elements of a budget determination will encompass the expenditure year "use factor" (PRA) as well as "leadtime," "project status," "demand," and other consideration in developing procurement requirements. This practice has much precedent in the Defense Department procurement bill which, of course, amongst other things includes monies to underwrite consumer funds outside the stock fund system.

7. In summation, I believe we can accept inventory budgeting on "captive" stock now and commence a "hard look" at our present system in determining our future course of action.

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cc: Mr.  EO/OL
Mr.  PMS/OL
Ms.  B&FB/OL
Mr.  OSB/SD/OL
Mr.  - P&PS/OL

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